

**Pizza Hut, Inc.**  
**Annual**  
**Report**  
**1976**



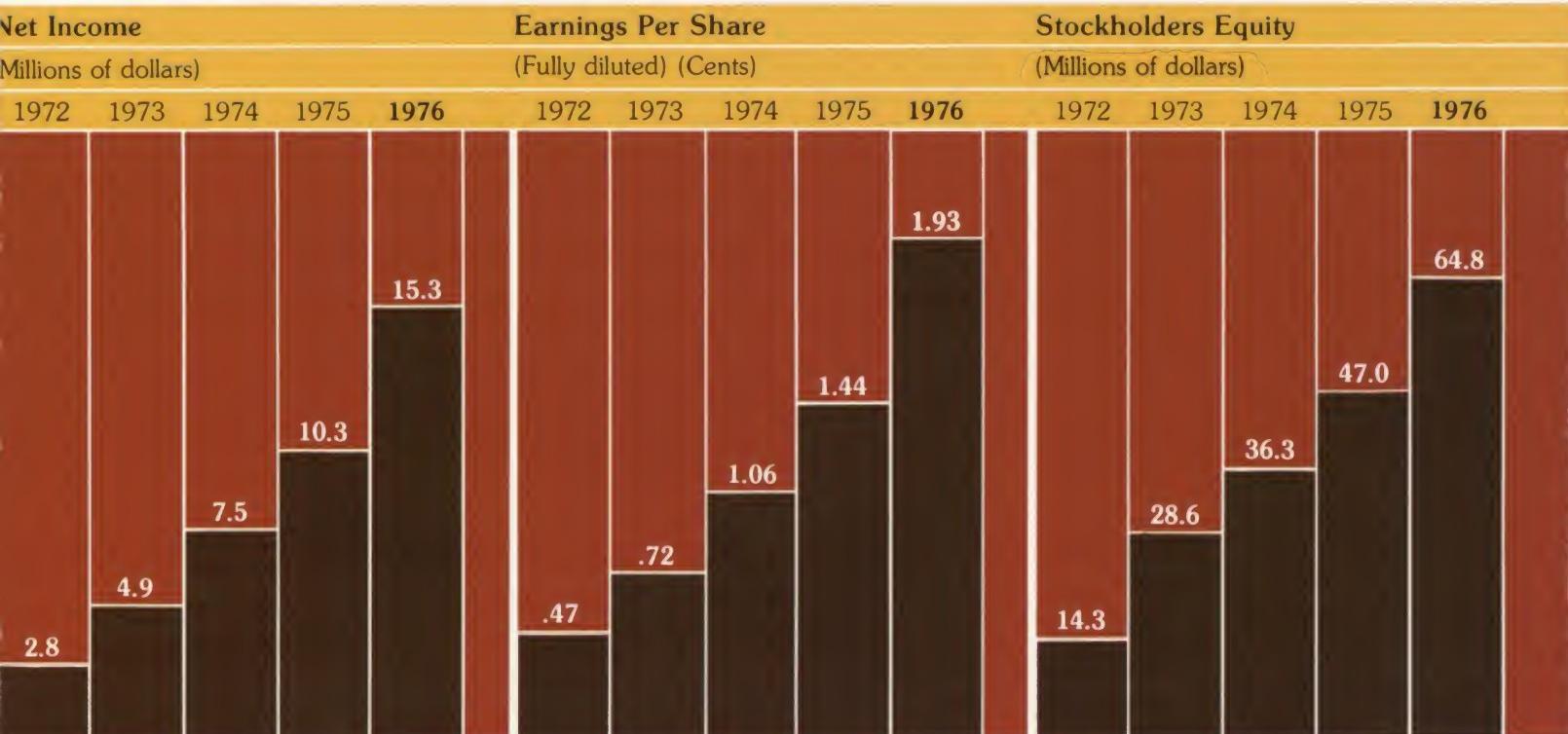
Sid Corp. Filo

## Quarterly Review

	1976			1975		
	Sales	Net Income	Earnings Per Share	Sales	Net Income	Earnings Per Share
<b>First Quarter</b> Ended June 30	\$ 54,192,105	\$ 3,434,197	.47	\$ 38,353,470	\$ 2,500,593	.35
<b>Second Quarter</b> Ended September 30	\$ 61,914,940	\$ 3,906,092	.49	\$ 44,265,936	\$ 2,800,740	.40
<b>Third Quarter</b> Ended December 31	\$ 64,675,027	\$ 4,246,001	.53	\$ 45,525,680	\$ 2,679,548	.38
<b>Fourth Quarter</b> Ended March 31	\$ 64,025,027	\$ 3,675,082	.45	\$ 44,884,354	\$ 2,347,319	.33
<b>Total</b>	<b>\$244,807,099</b>	<b>\$15,261,372</b>	<b>1.93</b>	<b>\$173,029,440</b>	<b>\$10,328,200</b>	<b>1.44</b>

All prior year numbers on charts and review sections have been restated.

Earnings per share computations are fully diluted — assuming exercise of options, warrants, and conversion of convertible notes and debentures.



## **Our Business**

Pizza Hut, Inc. is engaged in the operation, development and servicing of a system of Company owned and franchised family style restaurants under the name "Pizza Hut." Pizza Hut, Inc., through the introduction of new products, product extensions and unit expansion, will maintain its present leadership in the pizza market while becoming a more significant factor in the food service industry.



## Our Cover

Thin 'n Crispy and Thick 'n Chewy pizza, Cavatini oven baked pasta, spaghetti, salads and the Pizza Hut sandwich supreme demonstrate the varied and delicious menu items to be enjoyed in Pizza Hut restaurants.

Stock Market Information	Total Net Sales (Millions of dollars)					Revenues (Millions of dollars)				
	1972	1973	1974	1975	1976	1972	1973	1974	1975	1976
PIZ common stock is traded on the New York Stock Exchange. The stock price range on the New York Exchange for the past two years, by quarters was:										
	<u>1976</u>	<u>1975</u>								
Quarter Ended	HIGH	LOW	HIGH	LOW						
June 30	21	14-1/2	16-1/8	11-7/8						
Sept. 30	22-3/8	15-1/4	14-1/2	8						
Dec. 31	24-1/4	18	11-1/8	8-1/8						
March 31	29-3/8	20-3/4	16-7/8	8-1/2						
Adjusted for the 3-for-2 stock split in August, 1975										
The Company initiated a quarterly dividend of \$0.03 per share in January 1976, which became payable March 31, 1976, indicating an annual dividend of \$0.12 per share.	58.2	81.7	122.7	173.0	244.8	59.4	83.6	125.7	177.3	250.9



CLEVELAND PUBLIC LIBRARY  
BUSINESS INF. BUR.  
CORPORATION FILE

## History of Growth, five year review

(Dollars in thousands)	Fiscal years ended March 31				
	1976	1975	1974	1973	1972
Net sales	\$244,807	\$173,029	\$122,714	\$81,701	\$58,211
Franchise fees					
Initial	\$ 945	\$ 724	\$ 823	\$ 579	\$ 334
Continuing	\$ 5,104	\$ 3,592	\$ 2,204	\$ 1,300	\$ 805
Total revenues	\$250,856	\$177,345	\$125,741	\$83,580	\$59,350
Net income	\$ 15,261	\$ 10,328	\$ 7,478	\$ 4,912	\$ 2,831
Percentage to net sales	6.2	6.0	6.1	6.0	4.9
Earnings per share	\$ 1.93	\$ 1.44	\$ 1.06	\$ .72	\$ .47
Working capital	\$ 29,587	\$ 11,002	\$ 8,478	\$ 6,231	\$ 1,096
Current ratio	2.24	1.72	1.65	1.63	1.16
Stockholders' equity	\$ 64,785	\$ 47,038	\$ 36,310	\$28,596	\$14,271
Percentage return on average Stockholders' equity	27.3	24.8	23.0	22.9	22.8
Total assets	\$138,611	\$ 87,355	\$ 67,205	\$48,121	\$29,761
Number of restaurants (not restated)					
Company owned	1,246	997	623	490	359
Franchise system	1,075	878	864	640	496
Total	2,321	1,875	1,487	1,130	855

## Table of Contents

To Our Shareholders	2-3	Consolidated Balance Sheets	20-21
Operational Review	4-7	Statement of Consolidated Stockholders' Equity	22
Revenues and Contributions to Income	8-9	Statements of Changes in Consolidated	
Product Development and Advertising	11	Financial Position	23
Distribution	12	Notes to Consolidated Financial Statements	24-27
Five Year Summary of Operations	14	Accountants' Report	27
Management's Discussion	15-18	Officers and Directors	28
Statements of Consolidated Income	19		

## To Our Shareholders



Your Company again recorded record results for the fiscal year ended March 31, 1976. Pizza Hut, Inc. attained these results in spite of an overall adverse economic environment which resulted in increased costs, a slowing in real disposable personal income and overall general economic uncertainty for most of the year. Our unique and leading position in the food service industry enabled us to overcome these obstacles and record a 41 per cent total sales increase to \$244,807,000, from the 1975 figure of \$173,029,000. Both net income and earnings per share also showed record results for the year. Net income was \$15,261,000, up 48 per cent from the 1975 figure of \$10,328,000. Earnings per share increased 34 per cent to \$1.93 fully diluted, as compared to 1975's \$1.44 per share.

Total units at March 31 number 2,321. Fifty-four per cent (1,246 units) are Company owned with the remaining 46 per cent (1,075 units) franchised. These figures include 44 Company-owned foreign units and 57 franchise-owned foreign units. During the year, 42 Pizza Hut restaurants were acquired by the Company from franchisees.

The record figures of fiscal 1976 topped five years of solid growth for Pizza Hut, Inc. The highlights of this growth are:

	1971*	1976	Annual Compounded Growth Rate
Net Sales	\$40,537,000	\$244,807,000	43%
Net Income	\$ 1,623,000	\$ 15,261,000	57%
Earnings Per Share	\$0.29	\$1.93	46%
Total Assets	\$20,995,000	\$138,600,000	46%
Book Value Per Share	\$1.96	\$9.03	36%
Return on Average Stockholders Equity	16.9%	27.3%	
Total Units	668	2,321	28%
Company Units	259	1,246	37%
Average Volume Per Unit	\$ 103,000	\$ 179,000	12%

\*Restated except for units

The Company continues to expand unit sales via successful marketing development. This past year saw the successful introduction and implementation of a second product, Thick 'n Chewy pizza. This product not only gives us the ability to meet competition in areas where regional or ethnic taste preferences exist, but also acted as a new product introduction for the balance of the country. This new expansion has many benefits which translate

---

into increased customer count and sales. In addition, the Company's 1976 commercial advertising program accents the broad product line available at Pizza Hut restaurants. "There are a lot of good things under our roof" aptly describes the pizza, pasta, sandwiches, and salads that await our customers. Future research and development efforts will center around this many faceted Italian theme. With the introduction of additional menu items, we will further enhance our future sales growth potential.

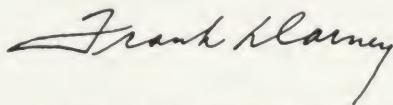
Three additional accomplishments in fiscal 1976 were:

- In July 1975, \$25 million of convertible subordinated debentures were issued which will allow your Company to increase the number of units it owns in the future.
- In August 1975, the Board of Directors voted to split the common stock "three-for-two" by means of a stock dividend.
- In January 1976, the Board of Directors initiated a cash dividend policy.

The outlook for Pizza Hut, Inc. is quite good. The Company has a commanding lead in the market share of pizza eaten away from home. It is the Company's plan to continue to increase it's market share by increasing unit volumes, increasing the number of units, new product introductions and continuing its efforts in obtaining, training, and upgrading personnel to meet future challenges. The Company's plans for consistent sales and earnings growth should result in consistent dividend growth. Future plans call for the opening of Company and franchise units on the same scale as in the past, approximately 400 units per year.

We look forward to the continued development of Pizza Hut, Inc. and are in an excellent position to meet future challenges.

Respectfully,



Frank L. Carney, President,  
Chairman of the Board

## **Operational Review**



The Pizza Hut system ended the March 31, 1976 fiscal year with a total of 2,321 units. During the year, 446 new units were opened, an increase of 24 per cent over fiscal 1975's total of 1,875. Of the new units added system wide, 207 were opened by the Company and 239 units were opened by franchisees. Included in the number of new units opened last year was unit number "2,000." This unit, operated by the Company, was opened September 23, 1975 in Independence, Missouri.

Average unit sales volumes increased from \$159,000 in fiscal 1975 to \$179,000 in fiscal 1976. This 12.5 per cent sales increase is consistent with our compounded average unit sales growth for the past five years. To a large degree, this increased volume can be attributed to increased consumer awareness and greater consumer acceptance of both existing menu items and new product introduction.

The continuing growth in sales, earnings and the number of units has put additional responsibility on all areas of the Company. Because of these increased demands, there were several operational changes made during fiscal 1976. The Company divided the domestic pizza division into three geographic areas and restructured the regional breakdown into nine regions, an addition of two over the previous year's structure. In the field management area,

From Cavatini oven baked pasta to Thin 'n Crispy or Thick 'n Chewy pizza, there's a delicious solution to family appetites at a Pizza Hut restaurant.



The Pizza Hut system's prompt carry out service provides the satisfaction required by customers, in taste and quality, for today's active life style.



## **Operational Review** (continued)

the Company now has 180 Area General Managers, 33 District Managers and 9 Regional Managers.

Today the management structure of Pizza Hut, Inc. has a centralized control system located in Wichita, Kansas. With the past and anticipated growth, the Company is testing the feasibility of a decentralized management control system. The test will have a Regional Vice-President responsible for 250 units with the operations, real estate and construction functions reporting to him. The Company believes that this will provide a means to more closely monitor day to day activities, allowing for prompt problem-solving and efficient decision making.

The number of franchised units increased 22 per cent during fiscal 1976, and is an indication of the continued franchisee growth in the Pizza Hut system. Our 30 largest franchisees now control 70 per cent of total franchised units. The number of units that these individual franchisees operate, varies from 10 units to 80 units.

The franchisees continue to demonstrate operational expertise for the growth and development of their units. Their individual talents in the areas of advertising, promotion and community involvement greatly enhance the Pizza Hut system.



**Revenues and  
Contributions to Income  
Pizza Hut, Inc. and Subsidiaries**

Fiscal Years Ended March 31  
(Dollars in Thousands)



Pizza Hut, Inc. is principally engaged in the operation, development, franchising and servicing of a system of family restaurants under the name "Pizza Hut." Pizza Hut restaurants sell pizza, pasta products, sandwiches and a limited menu of complementary food products at moderate prices prepared under recipes and procedures prescribed by the Company. The Company also manufacturers certain fixtures and supplies, processes a variety of spice blends used in its pizza and pasta products, and distributes equipment, supplies and food products for use in its restaurants and sale to franchisees. In addition, the Company operates 11 Mexican food restaurants under the name "Fiesta Cantina."

The following table sets forth for each of the Company's activities the respective amounts and percentages of revenues and of contribution to consolidated income before general and administrative expenses attributable to the home office, interest income and expenses other than on sales to franchisees and income taxes. The Company believes that allocating such expenses, interest, and taxes would be arbitrary due to the close relationship and interdependency of all its activities.

Expenses (other than general and administrative expenses attributable to the home office) related to "franchise fees" have been allocated to Company Pizza Hut restaurants. The table includes for all periods the sales by businesses acquired by the Company from March 31, 1971, through March 31, 1976, in transactions accounted for as poolings of interests and eliminates intercompany transactions.

	<b>1976</b>		<b>1975*</b>		<b>1974*</b>		<b>1973*</b>		<b>1972*</b>	
<b>Revenues:</b>										
Company Pizza Hut restaurants	<b>\$197,063</b>	<b>78.6%</b>	\$143,571	81.0%	\$103,240	82.1%	\$70,617	84.5%	\$49,828	84.0%
Sales to franchisees	<b>45,604</b>	<b>18.2</b>	27,374	15.4	16,367	13.0	6,873	8.2	4,216	7.1
Other restaurants	<b>2,140</b>	<b>.8</b>	2,084	1.2	3,041	2.4	3,930	4.7	3,795	6.4
Frozen pizza crusts					66	.1	281	.3	372	.6
Franchise fees:										
Initial	<b>945</b>	<b>.4</b>	724	.4	823	.7	579	.7	334	.6
Continuing	<b>5,104</b>	<b>2.0</b>	3,592	2.0	2,204	1.7	1,300	1.6	805	1.3
	<b>\$250,856</b>	<b>100.0%</b>	\$177,345	100.0%	\$125,741	100.0%	\$83,580	100.0%	\$59,350	100.0%
<b>Contribution to Income:</b>										
Company Pizza Hut restaurants (1)	<b>\$35,451</b>	<b>85.8%</b>	\$26,233	86.6%	\$19,291	90.3%	\$12,629	91.0%	\$8,528	97.2%
Sales to franchisees	<b>1,052</b>	<b>2.5</b>	652	2.1	358	1.7	263	1.9	166	1.9
Other restaurants	<b>165</b>	<b>.4</b>	25	.1	246	1.2	5	.7	72	.8
Frozen pizza crusts					(17)	(.1)	(260)	(1.9)	(72)	(.8)
Excess properties (2)	<b>(1,388)</b>	<b>(3.4)</b>	(948)	(3.1)	(1,551)	(7.3)	(635)	(4.6)	(1,062)	(12.1)
Franchise fees:										
Initial	<b>945</b>	<b>2.3</b>	724	2.4	823	3.9	579	4.2	334	3.8
Continuing	<b>5,104</b>	<b>12.4</b>	3,592	11.9	2,204	10.3	1,300	9.4	805	9.2
	<b>\$41,329</b>	<b>100.0%</b>	\$30,278	100.0%	\$21,354	100.0%	\$13,881	100.0%	\$8,771	100.0%
General and administrative expenses attributable to the home office and interest income and expense (3)	<b>13,466</b>		9,926		6,423		4,350		3,313	
Income before income taxes	<b>\$27,863</b>		\$20,352		\$14,931		\$9,531		\$5,458	

\*Restated

(1) Before deducting continuing losses of carrying closed Pizza Hut restaurants amounting to approximately \$30,000, \$130,000, \$313,000, \$227,000, and \$193,000 in the fiscal years 1972 through 1976, respectively, and write-offs of tangible and intangible assets pertaining to such restaurants amounting to approximately \$47,000 in fiscal year 1972, \$187,000 in fiscal year 1974, \$58,000 in fiscal year 1975 and \$367,000 in fiscal year 1976. Such losses and write-offs are included in "excess properties."

(2) Excess properties consist of properties initially owned or leased for restaurant or related purposes but which are now held for disposition, and include closed Taco Kid, Next Door, and Pizza Hut restaurants. The losses from "excess properties"

include approximately \$613,000, \$122,000, \$938,000, \$400,000, and \$800,000 in fiscal years 1972, 1973, 1974, 1975, and 1976, respectively, representing write-offs of tangible and intangible assets pertaining to closed Taco Kid, Next Door, and Pizza Hut restaurants. The balance of such losses consists of expenses incurred in carrying such properties less any income derived from the leasing or disposition of such properties. The Company no longer operates Next Door restaurants.

(3) The net amount of interest included in general and administrative expenses amounted to approximately \$496,000, \$339,000, \$567,000, \$1,532,000 and \$1,890,000 in the fiscal years 1972 through 1976, respectively.

The relaxed atmosphere of a warm and friendly Pizza Hut restaurant provides a casual and comfortable dining experience.



## **Product development and advertising**

"There are a lot of good things under our roof" was the new advertising theme adopted during the year. With our expanding menu, this theme clearly shows the appealing food items available to our customers. Our advertising and promotional activities during fiscal 1977 will be oriented toward introducing our new and existing products to the consumer. In the past year our total expenditures for advertising in Company owned units, in the national and local markets, came to eight million dollars. This year the total amount spent by the Company will increase to approximately ten million dollars. These amounts do not include franchisee advertising expenditures which, relative to their number of units and unit sales volumes, are approximately the same as the Company's.

In the previous year's annual report, reference was made to "Thick 'n Chewy" pizza, a second pizza product undergoing test. Introduction was completed in the early fall and by the end of fiscal 1976 "Thick 'n Chewy" pizza represented approximately 20 per cent of our total restaurant sales.

The addition of new menu items plays an important role in helping increase our sales and profits. Currently, there are several products in the testing stage, which if proven successful, will be introduced at a later date.

The industry, as well as Pizza Hut, Inc., has found in the past that there was not sufficient data available to accurately follow and determine industry trends. With this in mind management, with several other food service companies, initiated "The C.R.E.S.T. Report." Statistical facts concerning the industry are compiled, published and distributed to the members quarterly. This information assists Pizza Hut, Inc. in determining and continuing to meet future consumer demands.



## Distribution



Franchise Services, Inc., (FSI), a wholly-owned subsidiary, purchases, warehouses and distributes virtually a complete line of equipment, fixtures, food products and supplies needed to operate a Pizza Hut restaurant.

FSI now services about 92 per cent of all Pizza Hut restaurants including both Company owned and franchised. During the past year, distribution centers were opened in Los Angeles, California and Philadelphia, Pennsylvania. With the opening of these new facilities, FSI now has seven food distribution centers. The other centers are located in Texas, Florida, Georgia, Indiana and Illinois. Two additional distribution centers, located in Colorado and Kansas, are scheduled to open during fiscal 1977.

The Company geographically locates food distribution centers so they best serve the restaurants, in order to maintain product quality and availability. A centrally located equipment distribution facility is maintained in Wichita, Kansas. This facility, coordinates initial equipment orders to assure timely unit openings.

In addition, the company maintains a spice blending operation for use in preparing pizza and pasta products. Franchisees are not required to purchase any items from the Company except for this special blended spice product. The Company enjoys a high degree of loyalty from its franchisees and has agreed to limit the pre-tax earnings from FSI to 2.5 per cent.

FSI's delivery of fresh ingredients to the Pizza Hut restaurants, assures the freshness and quality present throughout the system.



## Five Year Summary of Operations

Fiscal years ended March 31

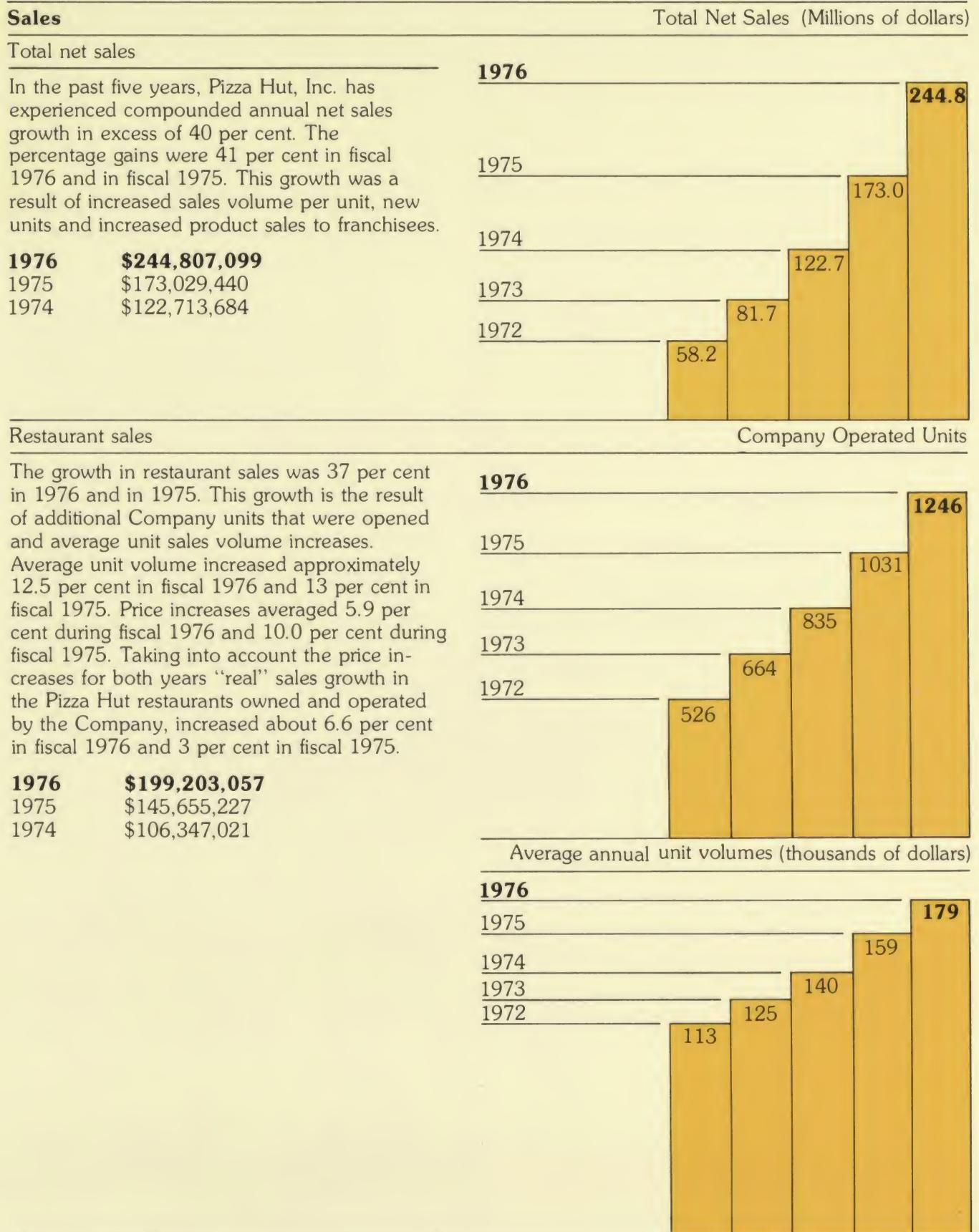
	<b>1976</b>	<b>1975*</b>	<b>1974*</b>	<b>1973*</b>	<b>1972*</b>
Net sales					
Restaurant sales	<b>\$199,203,057</b>	\$145,655,227	\$106,347,021	\$74,827,901	\$53,995,005
Product sales to franchisees	<b>45,604,042</b>	27,374,213	16,366,663	6,872,695	4,216,098
Total net sales	<b>244,807,099</b>	173,029,440	122,713,684	81,700,596	58,211,103
Cost of sales					
Restaurant	<b>55,465,194</b>	39,150,169	29,551,887	19,434,282	14,453,693
Product sales to franchisees	<b>42,286,068</b>	24,970,676	15,024,201	5,879,679	3,575,300
Total cost of sales	<b>97,751,262</b>	64,120,845	44,576,088	25,313,961	18,028,993
Gross profit	<b>147,055,837</b>	108,908,595	78,137,596	56,386,635	40,182,110
Initial franchise fees	<b>945,000</b>	724,000	823,500	579,000	333,500
Continuing franchise fees	<b>5,104,344</b>	3,591,901	2,203,841	1,300,473	805,343
Equity in net income or losses of unconsolidated foreign subsidiaries and minority-owned affiliates	<b>109,216</b>	(702,943)	(313,004)	(15,951)	(114,422)
	<b>153,214,397</b>	112,521,553	80,851,933	58,250,157	41,206,531
Selling, general and administrative expenses	<b>123,623,333</b>	90,981,843	65,701,462	48,484,960	35,457,250
	<b>29,591,064</b>	21,539,710	15,150,471	9,765,197	5,749,281
Other income	<b>1,836,329</b>	930,486	1,155,168	624,093	328,872
	<b>31,427,393</b>	22,470,196	16,305,639	10,389,290	6,078,153
Interest expense	<b>3,564,021</b>	2,117,849	1,374,413	858,278	620,124
Income before income taxes	<b>27,863,372</b>	20,352,347	14,931,226	9,531,012	5,458,029
Provision for income taxes	<b>12,602,000</b>	10,024,147	7,452,755	4,618,722	2,627,175
Net income	<b>\$ 15,261,372</b>	\$ 10,328,200	\$ 7,478,471	\$ 4,912,290	\$ 2,830,854

### Net Income Per Share:

Primary	\$2.10	\$1.47	\$1.06	\$ .72	\$ .47
Fully Diluted	\$1.93	\$1.44	\$1.06	\$ .72	\$ .47

\*Restated

## Management's Discussion and Analysis of the Summary of Operations



### Product sales to franchisees

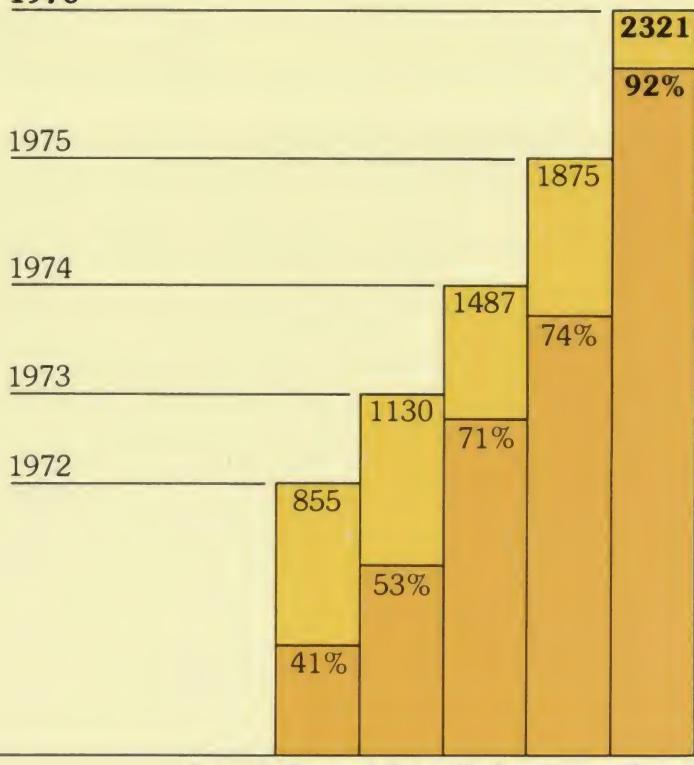
Franchise Service, Inc., a wholly-owned subsidiary is engaged in the sale of equipment, food products and supplies to Company owned and franchised units. The figures shown reflect the elimination of sales to Company operated units. Product sales to franchisees increased 67 per cent during both fiscal 1976 and fiscal 1975. These increases were primarily due to new unit openings, increased average unit volumes and the opening of two new distribution centers in both fiscal 1976 and fiscal 1975. The additional centers were able to increase system units served on a weekly basis to 92 per cent in fiscal 1976 from 74 per cent in fiscal 1975 and 71 per cent in fiscal 1974. Product sales to franchisees were 19 per cent of total net sales in fiscal 1976 as compared to 16 per cent in fiscal 1975 and 13 per cent in fiscal 1974.

<b>1976</b>	<b>\$45,604,042</b>
1975	\$27,374,213
1974	\$16,366,663

■ Units served by Franchise Services, Inc.

### Total Systemwide Units Serviced by FSI

#### 1976



### Cost of Sales

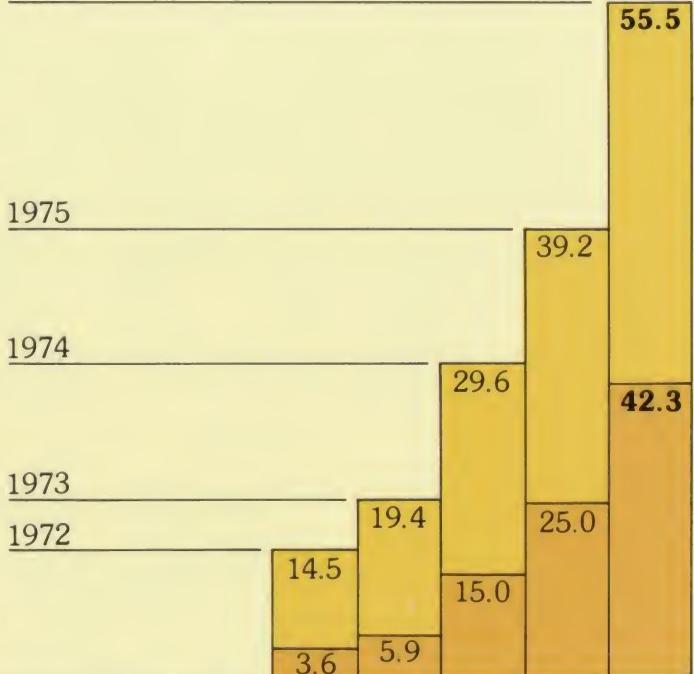
#### Annual Cost of Sales Dollars (in millions)

##### Total Cost of Sales

Total cost of sales were 40.0 per cent of sales in fiscal 1976 and 37 per cent of sales in fiscal 1975. This change is due mainly to the increase in product sales to franchisees as illustrated. The difference between the two cost of sales categories, restaurant and product sales to franchisees, is discussed below.

<b>1976</b>	<b>\$97,751,262</b>
1975	\$64,120,845
1974	\$44,576,088

#### 1976



■ cost of restaurant sales ■ cost of product sales

---

#### Cost of sales - restaurant

---

The increase in the dollar amount of restaurant cost of sales was due to the growth in sales. Restaurant operations averaged 28 per cent cost of sales in fiscal 1976 and 27 per cent cost of sales in fiscal 1975. The percentage increase was due to higher raw material costs experienced during the year.

<b>1976</b>	<b>\$55,465,194</b>
1975	\$39,150,169
1974	\$29,551,887

---

#### Cost of sales - product sales to franchisees

---

The dollar increase in this category relates to sales growth. Product sales to franchisees averaged 93 per cent cost of sales during fiscal 1976 and 91 per cent cost of sales during fiscal 1975. This percentage increase was mainly due to an increase in raw product costs.

<b>1976</b>	<b>\$42,286,068</b>
1975	\$24,970,676
1974	\$15,024,201

---

### Other Income

---

#### Initial franchise fees

---

The Company receives an initial fee upon the opening of each new franchised Pizza Hut restaurant. The amounts of the fees have varied over the years, but generally range between \$4,000 and \$6,000 for each unit opened. The change in initial fee income, is directly related to the number of units opened each year.

<b>1976</b>	<b>\$945,000</b>
1975	\$724,000
1974	\$823,500

---

#### Continuing franchise fees

---

Each franchised Pizza Hut restaurant pays a monthly fee to the Company which is usually computed as a percentage of sales. The 42 per cent increase during fiscal 1976 and the 63 per cent increase during fiscal 1975 are directly related to the new franchised units opened during the year and the increased average annual unit volume.

<b>1976</b>	<b>\$5,104,344</b>
1975	\$3,591,901
1974	\$2,203,841

---

#### Equity in foreign and minority-owned affiliates

---

The company's share of annual earnings of all foreign subsidiaries and minority-owned affiliates is recorded under this heading. The improved results during fiscal 1976, over fiscal 1975, were mainly due to two factors, (1) discontinuing operations in Germany and (2) improvement in Australian and Canadian operations.

<b>1976</b>	<b>\$109,216</b>
1975	(\$702,943)
1974	(\$313,004)

---

**Other income**

This category primarily includes interest income on funds held pending use in the development of new Company-operated Pizza Hut restaurants. The fluctuation in such income is attributable to the timing of the Company's use of the funds and the fluctuation in short term interest rates.	<b>1976</b>	<b>\$1,836,329</b>
	1975	\$ 930,486
	1974	\$ 1,155,168

---

**Selling, General and Administrative Expenses**

As a percentage of sales, these expenses have decreased to 50 per cent in fiscal 1976 from 53 per cent in fiscal 1975 and fiscal 1974. The total dollar amount, including depreciation and amortization, taxes and rents, for the most part, has increased at a rate which is consistent with the growth of the Company.	<b>1976</b>	<b>\$123,623,333</b>
	1975	\$ 90,981,843
	1974	\$ 65,701,462

The Company has been increasing the amount being spent on advertising. The total expenditure for company owned units for fiscal 1976 was approximately \$8,000,000 (National and local), while fiscal 1975's total was \$5,500,000 and fiscal 1974 was \$3,700,000.

This category also includes charges of approximately \$670,000 during fiscal 1976, which is the result of discontinuing operations in Germany.

---

**Interest Expense**

The issuance of \$25,000,000 of convertible subordinated debentures during the current fiscal year is the direct cause of increased interest expense.	<b>1976</b>	<b>\$3,564,021</b>
	1975	\$2,117,849
	1974	\$1,374,413

---

**Income Taxes**

The effective tax rate for fiscal 1976 was 45.2 per cent and for fiscal 1975 was 49.3 per cent. The decrease in the tax rate was due primarily to increases in the investment tax credit in fiscal 1976 and the tax benefit from both current year and prior year losses in Germany.	<b>1976</b>	<b>\$12,602,000</b>
	1975	\$10,024,147
	1974	\$ 7,452,755

For additional information on income taxes, see the notes to the consolidated financial statements.

## Statements of Consolidated Income

Pizza Hut, Inc. and Subsidiaries

	Years ended March 31,	
	1975	Restated— Note B
	1976	
Net sales		
Restaurant sales	<b>\$199,203,057</b>	\$145,655,227
Product sales to franchisees	<b>45,604,042</b>	27,374,213
<b>TOTAL NET SALES</b>	<b>244,807,099</b>	173,029,440
Cost of sales		
Restaurant	<b>55,465,194</b>	39,150,169
Product sales to franchisees	<b>42,286,068</b>	24,970,676
<b>TOTAL COST OF SALES</b>	<b>97,751,262</b>	64,120,845
GROSS PROFIT	<b>147,055,837</b>	108,908,595
Initial franchise fees	<b>945,000</b>	724,000
Continuing franchise fees	<b>5,104,344</b>	3,591,901
Equity in net income or losses of unconsolidated foreign subsidiaries and minority-owned affiliates	<b>109,216</b>	(702,943)
	<b>153,214,397</b>	112,521,553
Selling, general, and administrative expenses	<b>123,623,333</b>	90,981,843
	<b>29,591,064</b>	21,539,710
Other income (including interest: 1976 — \$1,752,708; 1975 — \$640,226)	<b>1,836,329</b>	930,486
	<b>31,427,393</b>	22,470,196
Interest expense	<b>3,564,021</b>	2,117,849
INCOME BEFORE INCOME TAXES	<b>27,863,372</b>	20,352,347
Provision for income taxes - Note G	<b>12,602,000</b>	10,024,147
<b>NET INCOME</b>	<b>\$ 15,261,372</b>	\$ 10,328,200
Net income per share — Note A:		
Primary - assuming exercise of options and warrants		
1976 - 7,268,982	<b>\$2.10</b>	
1975 - 7,041,675		\$1.47
Fully diluted — assuming in addition conversion of 6-1/4% debentures and convertible notes		
1976—8,219,302	<b>\$1.93</b>	
1975—7,183,181		\$1.44

See notes to consolidated financial statements.

## Consolidated Balance Sheets

Pizza Hut, Inc. and Subsidiaries

### ASSETS

	March 31, 1975	Restated - Note B
	1976	
<b>CURRENT ASSETS</b>		
Cash	\$ 4,915,675	\$ 5,871,913
Certificates of deposit	<b>30,150,000</b>	
Properties under construction for sale and leaseback		7,532,695
Receivables:		
Notes	52,595	170,905
Trade accounts	<b>5,474,178</b>	3,091,081
Other accounts	<b>1,630,303</b>	481,133
Allowance for doubtful notes and accounts	<b>(182,500)</b>	(115,000)
	<b>6,974,576</b>	3,628,119
Inventories	<b>10,712,079</b>	8,655,800
Prepaid expenses	<b>687,890</b>	555,384
<b>TOTAL CURRENT ASSETS</b>	<b>53,440,220</b>	26,243,911
<b>INVESTMENTS AND OTHER ASSETS</b>		
Investment in and advances to unconsolidated affiliates:		
Foreign subsidiaries	<b>4,730,568</b>	3,504,783
Other affiliates	<b>467,318</b>	323,535
	<b>5,197,886</b>	3,828,318
Cost in excess of net assets of business acquired, less amortization	<b>3,787,077</b>	3,588,472
Patents, service marks, and franchises	<b>1,628,639</b>	1,663,217
Other accounts	<b>3,032,906</b>	2,600,344
	<b>13,646,508</b>	11,680,351
<b>PROPERTY, PLANT, AND EQUIPMENT - Note C</b>		
Land	<b>13,616,934</b>	8,374,101
Buildings and improvements	<b>18,078,265</b>	10,855,748
Leasehold improvements	<b>14,740,431</b>	11,146,255
Operating equipment	<b>39,841,066</b>	28,426,567
	<b>86,276,696</b>	58,802,671
Allowances for depreciation and amortization (deduction)	<b>(16,419,846)</b>	(11,179,431)
	<b>69,856,850</b>	47,623,240
<b>DEFERRED CHARGES</b>		
Organization expense	<b>219,325</b>	250,331
Deferred income taxes	<b>808,638</b>	1,388,097
Other	<b>639,720</b>	169,517
	<b>1,667,683</b>	1,807,945
	<b>\$138,611,261</b>	\$87,355,447

See notes to consolidated financial statements.

## **LIABILITIES AND STOCKHOLDERS' EQUITY**

	March 31, 1975	Restated— Note B
	<b>1976</b>	
<b>CURRENT LIABILITIES</b>		
Trade accounts payable	\$ 8,592,603	\$ 6,219,439
Taxes, other than income	2,591,310	1,883,823
Federal and state income taxes	7,006,755	3,853,274
Other accrued expenses	4,361,157	1,781,228
Current portion of long-term debt	1,301,285	1,504,527
<b>TOTAL CURRENT LIABILITIES</b>	<b>23,853,110</b>	15,242,291
 <b>LONG-TERM DEBT—less portion classified as current liability—Note C:</b>		
6-1/4% convertible subordinated debentures, due 1995	23,691,000	
Other	23,429,557	23,109,019
	<b>47,120,557</b>	23,109,019
 <b>DEFERRED INITIAL FRANCHISE FEE INCOME</b>	<b>852,400</b>	766,200
 <b>ESTIMATED FUTURE LEASE COSTS</b>	<b>2,000,000</b>	1,200,000
 <b>STOCKHOLDERS' EQUITY—Notes C and E</b>		
Preferred Stock—\$0.01 par value		
Authorized 1,000,000 shares; none issued	—	—
Common Stock—\$0.01 par value		
Authorized 20,000,000 shares; issued and outstanding 7,172,945 shares in 1976 and 4,749,953 shares in 1975	71,729	47,500
Other capital	567,919	362,547
Additional paid-in capital	20,791,342	18,015,694
Retained earnings	43,355,768	28,613,760
Treasury Stock (7,282 shares) at cost	(1,564)	(1,564)
	<b>64,785,194</b>	47,037,937
 <b>LEASES AND CONTINGENT LIABILITIES—Notes F and H</b>		
	<b>\$138,611,261</b>	<b>\$87,355,447</b>

## Statement of Consolidated Stockholders' Equity

Pizza Hut, Inc. and Subsidiaries

Years ended March 31, 1976 and 1975

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Other Capital</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>
<b>Balance at April 1, 1974:</b>						
As previously reported	4,457,084	\$44,571	\$362,547	\$17,593,220	\$17,689,410	(\$1,564)
Adjustment for acquisition of pooled companies - Note B	247,500	2,475		12,570	606,350	
As restated	4,704,584	47,046	362,547	17,605,790	18,295,760	(1,564)
Acquisition of pooled companies formed in 1975 - Note B	12,000	120		(119)		
Pooled company's fractional shares not converted	(9,371)	(93)			93	
Amounts received to exercise and extend employee stock options	42,740	427			409,930	
Dividends paid by pooled company prior to merger						(10,200)
<b>Net income</b>						<b>10,328,200</b>
<b>BALANCE AT MARCH 31, 1975</b>	<b>4,749,953</b>	<b>47,500</b>	<b>362,547</b>	<b>18,015,694</b>	<b>28,613,760</b>	<b>(1,564)</b>
Adjustment for three for two stock split	2,228,542	22,285		(22,285)		
Pooled company's fractional shares sold	8,153	82		(82)		
Fractional shares on three for two stock split paid in cash	(3,581)	(36)		(2,563)		
Capitalization of undistributed partnership earnings			205,372			(205,372)
Pooled company's dividends and distributions prior to acquisition						(100,000)
Amounts received to exercise and extend employee stock options	76,929	769		843,841		
Conversion of 7% and 8% convertible notes	52,546	525		674,475		
Conversion of 6-1/4% convertible debentures	60,403	604		1,282,262		
Dividends on Common Stock (\$.03 per share)						(213,992)
<b>Net income</b>						<b>15,261,372</b>
<b>BALANCE AT MARCH 31, 1976</b>	<b>7,172,945</b>	<b>\$71,729</b>	<b>\$567,919</b>	<b>\$20,791,342</b>	<b>\$43,355,768</b>	<b>(\$1,564)</b>

See notes to consolidated financial statements.

## Statements of Changes in Consolidated Financial Position

Pizza Hut, Inc. and Subsidiaries

	Years ended March 31,	
	1976	1975 Restated- Note B
<b>SOURCE OF FUNDS</b>		
Net income	<b>\$15,261,372</b>	\$10,328,200
Charges (credits) to income not affecting funds:		
Depreciation and amortization	<b>6,027,550</b>	4,392,590
Deferred income taxes	<b>383,663</b>	(85,828)
Increase in deferred initial franchise fees	<b>86,200</b>	170,200
Provision for future lease costs	<b>800,000</b>	400,000
Equity in net (income) loss of unconsolidated foreign subsidiaries and minority-owned affiliates	<b>(109,216)</b>	702,943
<b>TOTAL FROM OPERATIONS</b>	<b>22,449,569</b>	15,908,105
Proceeds from long-term debt	<b>29,174,576</b>	19,349,823
Conversion of convertible debentures and notes	<b>1,957,866</b>	
Disposals of property, plant, and equipment including sale and leaseback transactions	<b>9,140,926</b>	24,984,630
Other items	<b>1,037,808</b>	560,951
	<b>63,760,745</b>	60,803,509
<b>APPLICATION OF FUNDS</b>		
Assets of purchased companies:		
Property, plant, and equipment	<b>92,982</b>	202,732
Franchise rights and other assets	<b>27,735</b>	150,166
Cost in excess of net assets acquired	<b>275,751</b>	41,664
Long-term debt assumed	<b>(45,832)</b>	(17,917)
	<b>350,636</b>	376,645
Additions to property, plant, and equipment	<b>37,050,141</b>	43,429,710
Reductions of long-term debt	<b>5,208,870</b>	12,680,841
Investments in and advances to unconsolidated foreign subsidiaries and minority-owned affiliates	<b>1,275,639</b>	1,063,625
Dividends on common stock	<b>213,992</b>	
Other items	<b>1,075,977</b>	728,739
	<b>45,175,255</b>	58,279,560
<b>INCREASE IN WORKING CAPITAL</b>	<b>\$18,585,490</b>	\$ 2,523,949
<b>INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT</b>		
Cash	<b>(\$ 956,238)</b>	(\$ 108,437)
Certificates of deposit	<b>30,150,000</b>	(5,800,000)
Properties under construction for sale and leaseback	<b>(7,532,695)</b>	6,357,596
Trade and other receivables	<b>3,346,457</b>	910,242
Inventories	<b>2,056,279</b>	3,238,980
Prepaid expenses	<b>132,506</b>	90,813
Current portion of long-term debt	<b>203,242</b>	(49,325)
Trade accounts payable and accrued expenses	<b>(5,660,580)</b>	(2,456,162)
Income taxes	<b>(3,153,481)</b>	340,242
<b>INCREASE IN WORKING CAPITAL</b>	<b>\$18,585,490</b>	\$ 2,523,949

See notes to consolidated financial statements.

## **NOTE A—ACCOUNTING POLICIES**

### **PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of all domestic subsidiaries after elimination of significant intercompany accounts and transactions.

### **FOREIGN SUBSIDIARIES AND OTHER AFFILIATES**

Investments in wholly-owned subsidiaries in Australia, Canada, Mexico, Japan, and England and investments in certain minority-owned domestic affiliates are carried at cost plus equity in net income of the foreign subsidiaries and domestic affiliates. The assets, liabilities, revenues, and net income (losses) of these foreign subsidiaries were not significant.

### **INVENTORIES**

Inventories are stated at the lower of cost (first-in, first-out method) or market.

### **PROPERTY, PLANT, AND EQUIPMENT AND DEPRECIATION POLICIES**

Property, plant, and equipment is carried on the basis of cost and depreciation is determined principally by the straight-line method over the following ranges of useful lives:

Buildings and improvements	20 to 30 years
Operating equipment	3 to 10 years
Leasehold improvements	Term of lease

### **SALE AND LEASEBACK TRANSACTIONS**

Gains or losses (which were not material) from the sale of properties under sale and leaseback transactions are deferred and amortized over the respective lease terms. The leases involved in these transactions are considered to be financing leases and are included in the information in Note F. Properties under construction at the end of 1975 which were committed for sale and leaseback during the following year have been classified as current assets in the accompanying balance sheet.

### **AMORTIZATION POLICIES**

Amortization of intangibles and deferred charges is determined principally by the straight-line method. The cost in excess of net assets of businesses acquired prior to October 31, 1970, is not amortized since, in the opinion of management, there has been no diminution in value. Such amounts acquired after October 31, 1970, (\$3,396,745 including amounts attributable to unconsolidated subsidiaries and affiliates) and the cost of substantially all liquor licenses are amortized over a forty-year life. Franchise rights, deferred debt expense, and organization costs are amortized over fifteen-year lives. Deferred site development costs are amortized over five-year lives.

### **INITIAL FRANCHISE FEE INCOME**

Upon the sale of a franchise, the Company records the amount received or receivable as an asset and the fee as

deferred franchise fee income. The initial franchise fee is recorded as income when the retail unit has been opened by the franchisee.

### **INVESTMENT TAX CREDITS**

Investment tax credits are accounted for using the flow-through method.

### **RESEARCH AND DEVELOPMENT**

The Company charges all research and development expenses (which are not material) to expense at the date incurred.

### **ESTIMATED FUTURE LEASE COSTS**

Certain leased properties have been closed and the Company is providing for the estimated present value of these future net lease costs.

### **NET INCOME PER SHARE**

Employee stock options, warrants attributable to the 8-3/4% Senior Notes, and options under a director's deferred compensation plan are considered to be Common Stock equivalents in the computation of primary net income per share using the treasury stock method applied at the average market price during the period.

In the computation of fully-diluted net income per share, the Common Stock equivalents plus the shares issuable in the assumed conversion of convertible debentures and notes are considered and interest expense (net of applicable income taxes) attributable to the convertible debentures and notes are added to net income. The treasury stock method is applied to Common Stock equivalents at the year end market price if higher than the average market price.

Prior year earnings per share amounts and related shares have been restated to give retroactive effect to the three for two stock split in 1976.

### **RECLASSIFICATION**

Costs of \$1,007,000 that had previously been included in 1975 cost of sales have been reclassified to selling, general, and administrative expenses to conform with the 1976 presentation.

### **NOTE B—ACQUISITIONS**

During 1976, the Company acquired four Pizza Hut restaurants and the remaining interest in a 49% owned affiliate operating 33 Pizza Hut restaurants in exchange for 259,500 shares of Common Stock in transactions accounted for as poolings of interests. The 1976 consolidated statement of income includes net sales of \$5,927,480 and net income of \$522,513 (after elimination of intercompany transactions) for the period April 1, 1975, to the respective dates of acquisition of the pooled companies. The 1975 financial statements have been restated to include the operations of the pooled units. After elimination of intercompany transactions, this restatement

increased net sales by \$5,513,864 and net income by \$304,335 and decreased primary net income per share by \$.01 and fully diluted net income per share by \$.02. The Company also acquired five restaurants in 1976 in a transaction accounted for as a purchase at a cost of \$325,000 and this cost exceeded the value of net assets acquired by \$275,751. The operations of the purchased units (which are not material) have been included in the accompanying financial statements from the date of acquisition.

In September, 1974, the Company acquired its largest franchisee, Pizza Corporation of America (PCA) in exchange for 1,716,241 shares (as restated for the three for two stock split) of Common Stock in a transaction accounted for as a pooling of interest. PCA operated 225 Pizza Hut restaurant units at the date of acquisition. Also during 1975 the Company acquired one unit in a purchase transaction at a cost of \$17,758 and its operations are included in the consolidated statement of income from the date of acquisition.

#### **NOTE C—LONG-TERM DEBT**

Other long-term debt consists of the following:

	1976	1975
10-3/8% Promissory Notes payable in semi-annual installments of \$725,000 from October, 1979 to April, 1990.....	\$16,000,000	\$12,000,000
8-3/4% Senior Notes payable in annual installments of \$250,000 from March, 1978 to March, 1987.....	2,400,616	2,385,340
Mortgage and Equipment Notes payable in monthly installments of \$28,416 including interest at rates from 3% to 12% maturing at various dates to 1991 .....	1,332,951	2,304,307
Notes payable to banks in quarterly installments of \$178,570 plus interest at 3/4% over prime rate to October, 1981 .....	4,107,150	4,821,430
Convertible Notes due in 1976 and 1978 with interest rates of from 7% to 8% .....	323,000	1,096,000
Other Unsecured Notes payable in monthly installments of \$25,542 plus interest at rates of 7% to 9.15% maturing at various dates through 1978 .....	567,125	2,006,469
Less amounts due within one year .....	<u>24,730,842</u>	<u>24,613,546</u>
	<u>1,301,285</u>	<u>1,504,527</u>
	<u>\$23,429,557</u>	<u>\$23,109,019</u>

The 6-1/4% subordinated convertible debentures are callable at any time (but at a premium to 1994) and are convertible into the Company's Common Stock at the rate of one share for each \$21.67 principal amount of debentures. The Company is required to make annual sinking fund payments to redeem \$2,500,000 principal amount of debentures commencing in 1986. Debentures called or converted may be applied to reduce this annual sinking fund requirement.

The Senior Notes were issued with detachable Warrants to purchase at any time prior to March 2, 1987, 131,250 shares of Common Stock at \$6.17 a share. The \$2,500,000 face amount of these notes has been reduced by the discount attributable to the Warrants resulting in an effective interest rate of 9-1/3%.

Property, plant, and equipment with a carrying value of approximately \$2,850,000 has been pledged as collateral to the Mortgage and Equipment Notes.

The Convertible Notes are convertible into shares of the Company's Common Stock at the following rates: \$25,000 at \$5.67 a share and \$298,000 at \$21.09 a share.

The Company has agreed, under certain long-term agreements, to maintain working capital of \$5,000,000 and to maintain a current ratio of at least 1.25 to 1. The agreements also contain certain restrictions which, among other things, prohibit the payment of dividends or the purchase of the Company's Common Stock unless certain debt service and earnings tests are met. Under the most restrictive of these requirements approximately \$5,300,000 will be available during the year ending March 31, 1977 for such purposes.

Maturities of long-term debt for the next five years are as follows: 1977—\$1,301,285; 1978—\$1,304,610; 1979—\$1,555,532; 1980—\$1,094,869; 1981—\$1,076,943.

#### **NOTE D—SALE AND LEASEBACK TRANSACTIONS**

During the two years ended March 31, 1976, the Company constructed and sold the following properties to outside parties and leased the properties back for periods of 20 to 22 years.

	Properties Sold	Selling Price
1976.....	89	\$16,800,260
1975.....	118	\$17,846,000

#### **NOTE E—STOCK OPTIONS**

Under the terms of the employee stock option plans, the Company may grant options to officers and employees to purchase shares of its Common Stock at a price not less than the fair market value of the stock at date of grant. Activity under these plans (as adjusted for the three for two stock split) is summarized as follows:

## Notes to Consolidated Financial Statements (continued)

	Number of Shares	Option Price		Total
		Per Share	Total	
Outstanding April 1, 1974.....	285,251	\$ 6.25 to \$20.00	\$3,138,633	
Granted.....	40,830	8.67 to 12.25	429,989	
Canceled.....	(27,772)	6.25 to 20.00	(322,604)	
Exercised.....	(42,740)	6.25 to 15.13	(410,730)	
Outstanding March 31, 1975....	255,569	6.41 to 18.99	2,835,288	
Granted.....	104,575	14.67 to 21.75	1,698,369	
Canceled.....	(39,817)	10.09 to 15.00	(456,592)	
Exercised.....	(76,929)	6.41 to 18.99	(839,135)	
Outstanding March 31, 1976 (of which 76,977 were exercisable).....	243,398	\$ 8.67 to \$21.75	\$3,237,930	
Became exercisable in 1975 ....	77,711	\$ 6.41 to \$18.99	\$ 868,431	
Became exercisable in 1976 ....	72,428	\$ 6.41 to \$18.99	\$ 801,202	

At March 31, 1976, Common Stock was reserved as follows:

	Shares
Convertible debentures.....	1,093,263
Employee stock option plan.....	385,655
Warrants to purchase	
Common Stock at \$6.17 a share.....	131,250
Convertible notes.....	18,546
Other stock options.....	13,625
	<u>1,642,339</u>

### NOTE F—LEASES

Total rent expense for all leases is summarized as follows:

	1976	1975
Financing leases:		
Minimum rentals.....	\$12,358,425	\$ 8,707,747
Contingent rentals .....	452,995	286,265
Other leases:		
Minimum rentals.....	4,114,919	2,966,419
Contingent rentals .....	1,157,953	705,751
Sublease rental income.....	(597,384)	(502,681)
	<u>\$17,486,908</u>	<u>\$12,163,501</u>

Contingent rentals represent mileage rates on transportation equipment and additional rentals on restaurant buildings based upon a percentage of sales.

The future minimum rental commitments as of March 31, 1976, for all noncancelable leases are as follows:

	Financing Leases		Other Leases		
	Total	Restaurants	Equipment	Restaurants	Equipment
1977.....	\$17,187,258	\$13,932,936	\$166,687	\$ 1,256,068	\$1,831,567
1978.....	16,253,359	13,932,527	143,997	1,216,427	960,408
1979.....	15,646,901	13,907,782	131,180	1,100,366	507,573
1980.....	15,309,626	13,891,498	126,353	980,214	311,561
1981.....	14,982,856	13,855,863	73,706	904,125	149,162
1982-86.....	69,023,782	65,322,323		3,610,053	91,406
1987-91.....	54,007,240	51,507,133		2,454,507	45,600
1992-96.....	31,278,297	30,198,147		1,080,150	
Thereafter ..	682,342	371,606		310,736	
	<u>\$234,371,661</u>	<u>\$216,919,815</u>	<u>\$641,923</u>	<u>\$12,912,646</u>	<u>\$3,897,277</u>

The above commitments have not been reduced by anticipated rental income from existing noncancelable subleases in the approximate amount of \$3,510,000. These subleases relate primarily to restaurants and generally cover a shorter term than the respective prime lease. The restaurant leases generally include renewal provisions of from 5 to 20 years at the original rental rates.

The estimated present values of minimum lease commitments under financing leases (as defined by the Securities and Exchange Commission) are summarized as follows:

	1976	1975
Restaurants.....	\$101,862,689	\$71,138,196
Less: Sublease rentals.....	914,551	540,317
Equipment.....	591,846	799,303
	<u>\$101,539,984</u>	<u>\$71,397,182</u>

Interest rates implicit in the financing leases range from 5.9% to 17.1% for restaurants and 8.5% to 15.6% for equipment (weighted average 10.2% to 9.1%, respectively.)

If all financing leases had been capitalized, it is estimated that net income for the years 1976 and 1975 would have been reduced by \$1,323,000 and \$935,000, respectively. This computation assumes that the estimated present values (including present values attributable to land) were amortized on a straight-line basis over the terms of the leases and that interest expense was accrued on the outstanding lease obligations at the rates shown above. The amounts included for amortization of leased property (including land) and interest expense were \$5,567,000 and \$9,117,000, respectively in 1976 and \$4,277,000 and \$6,330,000, respectively in 1975.

## NOTE G—INCOME TAXES

Federal and state income taxes consist of the following:

	1976	1975		
	Current	Deferred	Current	Deferred
Federal.....	\$10,638,495	\$352,970	\$ 8,868,075	(\$78,928)
State.....	1,579,842	30,693	1,241,900	(6,900)
	<u>\$12,218,337</u>	<u>\$383,663</u>	<u>\$10,109,975</u>	<u>(\$85,828)</u>

The components of deferred income tax expense result from the use of the following:

	1976	1975
Provision for future lease costs .....	(\$400,000)	(\$200,000)
Accelerated depreciation for tax purposes.....	788,121	
Other.....	(4,458)	114,172
	<u>\$383,663</u>	<u>(\$ 85,828)</u>

The reasons for the difference between the total tax expense and the amount computed by applying the statutory Federal income tax rate of 48% to income before income taxes are as follows:

	1976	1975
48% of pre-tax income.....	\$13,374,418	\$ 9,769,126
Add state taxes net of Federal tax benefit.....	837,478	642,200
Deduct:		
Tax benefit of write off of investment in Germany .....	(740,000)	
Investment tax credit.....	(1,455,831)	(902,991)
Other.....	585,935	515,812
	<u>\$12,602,000</u>	<u>\$10,024,147</u>

## Accountants' Report

ERNST & ERNST  
1050 VICKERS KSB&T BUILDING  
WICHITA, KANSAS 67202

Stockholders and Board of Directors  
Pizza Hut, Inc.  
Wichita, Kansas

We have examined the consolidated balance sheets of Pizza Hut, Inc. and subsidiaries as of March 31, 1976 and March 31, 1975, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Pizza Hut, Inc. and subsidiaries at March 31, 1976 and March 31, 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Wichita, Kansas  
May 22, 1976

## NOTE H—CONTINGENT LIABILITIES

The Company has guaranteed obligations of unconsolidated affiliated companies and others amounting to approximately \$3,400,000.

At March 31, 1976, as a result of various transactions, the Company was guarantor of lease commitments of certain franchisees. The annual rentals and the estimated present value of these guaranteed leases is summarized as follows:

	Transaction	Annual Rental	Present Value
Guaranteed for a fee .....	\$302,440	\$1,781,007	
Guaranteed for minority interest .....	432,772	3,368,798	
Formerly owned units sold to franchisees .....	143,719	798,723	
	<u>\$878,931</u>	<u>\$5,948,528</u>	

The Company is a party to lawsuits arising out of the normal course of its business. The disposition of such litigations will not, in the opinion of management and legal counsel, result in a material adverse effect on the Company's financial position.

## NOTE I—SUBSEQUENT EVENT

On May 18, 1976, the City Commission of Wichita, Kansas authorized the execution of a letter of intent to issue \$8,000,000 in industrial revenue bonds with the proceeds to be used to construct a new Pizza Hut, Inc. headquarters facility.

## Board of Directors



Frank L. Carney



Daniel M. Carney



King D. Shwayder



Louis Pozez



Martin T. Hart



G. E. Engleman



Daniel J. Taylor



Lester Pollack

## Officers and Directors

### Board of Directors

**Frank L. Carney**  
President &  
Chairman of the Board

**Daniel M. Carney**  
Investments

**G. E. Engleman**  
Chairman of the Board  
Union Bank of Ft. Worth &  
First National Bank, Hurst, Texas

**Martin T. Hart**  
Investments

**Lester Pollack**  
Executive Vice President  
Loews Corporation

**Louis Pozez**  
President  
Volume Shoe Corporation

**King D. Shwayder**  
President  
Samsonite Corporation

**Daniel J. Taylor**  
Senior Vice President  
Finance &  
Chief Financial Officer

### Officers

**Gerald T. Aaron**  
General Counsel &  
Corporate Secretary

**Frank L. Carney**  
President & Chairman of the Board

**Richard N. Chaput**  
Vice President, Franchise

**Robert E. Cressler**  
Senior Vice President  
Planning & Development

**Farris S. Farha**  
Senior Vice President  
Administrative Group

**Joseph P. Flynn**  
Vice President, International

**Neil D. Frumkin**  
Vice President  
Property Management

**Albert J. Kirk**  
Senior Associate  
Corporate Counsel

**Robert L. Logsdon**  
Vice President  
Marketing & Technical Services

**Kenneth R. Miller**  
Senior Vice President  
Operations Group

**Sam E. Moyers**  
Vice President  
Advertising &  
Market Planning

**R. Michael Niemann**  
Regional  
Vice President

**Thomas W. Orr**  
Vice President  
Distribution &  
Food Processing

**John H. Slaymaker**  
Vice President  
Financial Planning

**Max Sutton**  
Treasurer

**Daniel J. Taylor**  
Senior Vice President  
Finance &  
Chief Financial Officer

**M. Hal Taylor**  
Senior Vice President  
Support Group

### Annual Meeting

The Annual Meeting of Shareholders will be held at 9:00 A.M., Monday, August 9, 1976 at the Corporate offices, Wichita, Kansas. A formal notice of the meeting, together with proxy material, is being sent separately to shareholders.

---

**Corporate Data**

Common Stock  
Stock symbol: PIZ - Traded  
NYSE  
Transfer Agents:  
Citibank, N.A.  
New York & First  
National Bank in Wichita  
Registrars:  
Citibank, N.A.  
New York and The  
Fourth National Bank &  
Trust Co., Wichita.

**10-K Report**

A copy of Pizza Hut, Inc.'s  
10-K report filed with the  
Securities and Exchange  
Commission for 1976 can be  
obtained without charge by  
writing to:

James J. Byrne  
Director of Investor Relations  
Pizza Hut, Inc.  
P.O. Box 428  
Wichita, Kansas 67201

**Corporate Offices**

10225 E. Kellogg  
Wichita, Kansas 67207  
Tel. (316) 687-4111

**Auditors**

Ernst & Ernst  
Wichita, Kansas



Franchising's seal of excellence. We are proud to  
be a member of this organization, and fully  
subscribe to its code of ethics

